COUNCIL AGENDA: 11-6-12 ITEM: 4.1



# Memorandum

**TO:** HONORABLE MAYOR

AND CITY COUNCIL

**FROM:** Leslye Corsiglia

Jennifer A. Maguire

SUBJECT: SEE BELOW

**DATE:** October 22, 2012

Approved

Date

COUNCIL DISTRICT: 2

**SUBJECT:** 

FUNDING COMMITMENT FOR THE FORD & MONTEREY FAMILY AFFORDABLE HOUSING DEVELOPMENT BY EDEN HOUSING AND

MODIFICATIONS TO THE NSP2 CONSORTIUM FUNDING

**AGREEMENT** 

# RECOMMENDATION

It is recommended that Council adopt a resolution approving the following actions:

- 1. Authorizing the City Manager or designee to negotiate and execute a Third Amendment to the Neighborhood Stabilization Program 2 ("NSP2") Consortium Funding Agreement with The Housing Trust of Santa Clara County ("HTSCC") to increase the amount of NSP2 funds allocated to the City from \$19,139,324 to \$21,139,324 and to allow the use of up to \$2,000,000 of NSP2 funds, including program income funds to provide \$1,770,000 for construction and permanent financing for the 75-unit Ford Road Family Housing Project, and \$230,000 for project delivery costs; and
- Approving a funding commitment to Eden Housing or its designated affiliate ("Eden") 2. for up to \$1,770,000 for a Project construction/permanent loan funded from NSP2 program funds and allowing the capitalization of up to \$254,000 in construction interest to be accrued on the loan.
- Approval of the following 2012-2013 Appropriation Ordinance and Funding Sources 3. Resolution amendments in the Multi-Source Housing Fund:
  - a. Increase the estimate for Recovery Act Federal Revenue by \$2,000,000; and
  - b. Increase the appropriation to the Housing Department for the Recovery Act Neighborhood Stabilization Program 2 project by \$2,000,000.

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#### **OUTCOME**

Council's approval of the amended consortium funding agreement with HTSCC will enable the 75-unit Ford Road Family Housing Project ("Family Project") to move forward and obtain the other necessary project funding commitments needed to begin construction. Additionally, the recommended action will assist the City in meeting the NSP2 requirement to set-aside 25 percent of the funds for housing targeted to very low-income households.

## **BACKGROUND**

In June 2006, Council authorized the Housing Department to purchase a 3.06 acre vacant site from the State of California Department of Transportation that was offered, pursuant to State law, for affordable housing purposes. This site, located on the north side of Ford Road approximately 550 feet east of Monterey Road (the "Ford and Monterey site"), is situated between an existing shopping center on Monterey Road and an existing single-family residential neighborhood.

After a competitive process, on December 9, 2008, Eden was approved by Council as the preferred developer (including this family project and a special needs project). The City worked with Eden to enter into exclusive negotiations and to execute a ground lease option agreement for the development of 20 units of special needs housing and 75 family affordable apartments. Eden subsequently obtained Planned Development Zoning and PD permit approval for the project.

In July 2009, the City, along with the HTSCC and Neighborhood Housing Services of Silicon Valley (NHSSV), formed a consortium and submitted a successful application for a \$25,000,000 grant of NSP2 funds. NSP2 funds, governed by the U.S. Department of Housing and Urban Development (HUD), are required to be spent for certain eligible purposes, including the acquisition/rehabilitation of foreclosed properties. Per Program requirements, at least 25% of the funds must be used for housing affordable to lower-income households. To meet the requirements for lower-income households, the Housing Department selected the Ford Monterey Site and received HUD authorization.

At the Redevelopment Agency/City Council/Financing Authority Special meeting on January 19, 2011, the Housing Department obtained approval to commit 20% Funds totaling \$1,430,000 to Eden which included \$740,000 for infrastructure costs related to both the Special Needs project (Phase I) and the Family Project (Phase II) that needed to be completed during Phase I construction.

On March 29, 2011, a Development and Disposition Agreement (DDA) with Eden was approved, providing for the ground lease of the Ford Road site. On June 28, 2011, the DDA and Lease were executed for the Ford Road site.

On February 21, 2012, a parcel map memorializing the subdivision of the Ford Road site into two separate parcels was recorded. On June 15, 2012, the Housing Authority of Santa Clara County recorded a deed of Trust for \$6,600,000 and an affordability restriction on the Ford Road

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Family Project parcel and agreed to subordinate its Deed of Trust and affordability restriction to the City's affordability restriction.

#### **ANALYSIS**

The Housing Department is recommending amending the consortium funding agreement with the HTSCC to increase the City's allocation of NSP2 funds by \$2,000,000 from \$19,129,324 to \$21,129,324. On October 4, 2011, Council acted to authorize the Director of Housing to make changes to the consortium funding agreement. Since it is recommended to recognize grant revenue and appropriate funding for the loan with Eden Housing as described below, the Administration is also bringing forward the contract amendment with HTSCC.

With the receipt of the additional \$2,000,000 in NSP2 funds, the Housing Department is recommending City Council approval of a loan to Eden Housing of up to \$1,770,000 for the construction/permanent loan for the 75 unit Ford Road Family Project. Once the construction is completed, the construction loan will be converted into a permanent loan. As part of this conversion, as required by the project budget, the interest on the construction loan will be capitalized to the permanent loan. The maximum construction period interest to be capitalized is \$254,000. The specific loan terms will be approved by the Director of Housing per the Delegation of Authority granted by Council. The terms will be publicized in the Director's Quarterly Report summarizing all actions taken by the Director under this authority. The remaining NSP2 funds of \$230,000 will pay for personal services in the Housing Department for project delivery. The additional money will come from other NSP2 funds currently budgeted and administered by HTSCC.

At the Ford Road Family Project, 74 of the units will be affordability restricted for 55 years to Extremely Low Income (ELI) and Very Low Income (VLI) households earning 30% to 50% of Area Median Income (AMI) respectively, with one unrestricted manager's unit. The Project will be comprised of 12 one-bedroom units, 40 two-bedroom units and 23 three-bedroom units. The affordability mix includes five units at 20% AMI, 15 units at 30% AMI, 52 units at 50% AMI, two units at 15% AMI and one manager's unit. The two 15% AMI units will be targeted to homeless or formerly homeless individuals for a period of twenty years, after which they will return to 50% AMI units for an additional 35 years. The two 15% AMI units for the homeless are subject to the approval of the Housing Authority of Santa Clara County. Should the Housing Authority fail to approve these 15% AMI units, they will be capped at 30% AMI for 55 years. The units funded by NSP will be restricted at 60% AMI from the end of the 55 year period affordability period until the end of the lease (75 years).

In connection with the Family Project, the City will amend and restate the Lease for the Family Project parcel and record a leasehold affordability restriction as required under the DDA after the recording of the parcel map.

#### **Economic Development Benefits**

Development of affordable housing has direct economic benefit to the City. First, an estimated \$900,000 in City fees and construction taxes and approximately \$300,000 in Parkland Dedication

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fees will be paid to the City as a result of this development. Secondly, according to a 2009 study by the National Association of Homebuilders (NAHB) on the economic benefits of affordable multi-family construction, 75 units of family housing will generate over \$16 million of local benefits in the first year and approximately \$1,900,000 each year thereafter. According to the NAHB metrics, the development of the Family Project will create 113 jobs in San José in the first year, directly and indirectly, and 29 local jobs each year thereafter.

## **EVALUATION AND FOLLOW-UP**

The Housing Department regularly updates the status of affordable housing developments under construction on its website, <a href="www.sjhousing.org">www.sjhousing.org</a>. The final terms of the construction/permanent loan will be summarized in the Director's Quarterly Report that lists all actions taken by the Director under the authority delegated to the Director by Council. Council will also be informed of the ground breaking and grand opening dates.

#### **POLICY ALTERNATIVES**

Alternative #1: Deny or delay the requested funding commitment.

**Pros:** The funds being requested could be used for other affordable housing

projects and programs.

**Cons:** The subject project is one of only a few multifamily project candidates that

are able to meet the NSP2 guidelines.

**Reason for not** The proposed project will help to meet the demand for deeply affordable recommending: special needs housing that is affordable to ELI and VLI households and was

special needs housing that is affordable to ELI and VLI households and will help the City to fulfill its affordable housing goals. Approval of this project financing will ensure that this very important affordable housing project will move ahead in a timely manner and that NSP funds targeted to lower-income

households are expended.

## PUBLIC OUTREACH/INTEREST

$\sqrt{}$	<b>Criterion 1:</b>	Requires Council	action on the	e use of public	funds equal	to \$1	million or
	greater.						

<b>Criterion 2:</b>	Adoption	n of a nev	w or revise	d policy	that may	have	implications	for	public
health, safety	, quality	of life, or	financial/e	conomi	c vitality	of the	City.		

Criterion 3: Consideration of proposed changes to service delivery, programs, staffing
that may have impacts to community services and have been identified by staff, Council or
a Community group that requires special outreach.

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This item meets Criterion 1. Therefore, this memorandum will be posted to the City's website for the November 6, 2012 Council meeting.

Consistent with the Council Public Outreach Policy, a sign was posted on-site by the developer, Eden Housing, Inc. to notify neighbors of the proposed development and planned community meetings to be held by the developer. Meeting notices were also published via email to the Silver Leaf Neighborhood Coalition. A preliminary community neighborhood meeting was held February 3, 2009, followed by five additional community meetings-- April 18, June 24, July 15, September 1 and September 16, 2009.

The meetings were held to present preliminary design concepts to the community and gather feedback. The main concerns expressed included concerns about property management and the impact of the project on neighborhood property values. Residents living in homes adjacent to the property site also expressed concerns about privacy — as the original site plan had buildings adjacent to the property line. Eden revised the site plan before submitting a PD zoning application to move the buildings away from this property line to respond to community concerns.

## **COORDINATION**

This memorandum was coordinated with the Office of the City Attorney.

#### FISCAL/POLICY ALIGNMENT

This expenditure is consistent with the Housing Department's *Five-Year Housing Investment Plan for Fiscal Years* 2007/08-2011/12 in increasing the supply of affordable housing, and with the City's 2010-15 Consolidated Plan in providing units for very low- and extremely low-income households and for large renter households.

#### COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION: \$2,000,000

2. COST OF PROJECT:

 Project Delivery
 \$230,000

 Construction
 \$1,770,000

 TOTAL
 \$2,000,000

3. SOURCE OF FUNDING: Fund 448 – Multi-Source Housing Fund

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The actions recommended in this memorandum will recognize and appropriate additional federal grant funding under the Recovery and Reinvestment Act. All funds are anticipated to be encumbered, spent, and reimbursed by the end of this fiscal year.

4. FISCAL IMPACT: No ongoing fiscal impact

#### **BUDGET REFERENCE**

The table below identifies the fund and appropriation proposed to fund the contract recommended as part of this memorandum.

Fund #	Appn#	Appn. Name	Total Appn	Amt. for Contract	2012-2013 Proposed Budget (Page)	Last Budget Action (Date, Ord. No.)
448	3790	Recovery Act – Neighborhood Stabilization Program 2	\$3,667,678	\$1,770,000	N/A	10/16/12 Ord. No. 29163

# **CEQA**

CEQA: Mitigated Negative Declaration, PDC09-022

/s/ LESLYE CORSIGLIA Director of Housing

JENNIRER A. MAGUII

**Budget Director** 

I hereby certify that there will be available for appropriation in the Multi-Source Housing Fund in the Fiscal Year 2012-2013 moneys in excess of those heretofore appropriated therefrom, said excess being at least \$2,000,000.

EMVIFER A. MAGUIRE

**Budget Director** 

For questions please contact LESLYE CORSIGLIA, Director of Housing at 408-535-3851.